

EXHIBIT 7
(Redacted)

(Previously Filed Under Seal as DI 483-6)

UNITED STATES DISTRICT COURT
DISTRICT OF MINNESOTA

FAIR ISAAC CORPORATION, a)	Case No. 16-cv-1054 (WMW/DTS)
Delaware corporation,)	
)	
Plaintiff,)	
)	
v.)	Jury Trial Demanded
)	
FEDERAL INSURANCE COMPANY, an)	
Indiana corporation, and ACE)	
AMERICAN INSURANCE COMPANY, a)	
Pennsylvania corporation,)	
)	
Defendants.)	
)	

EXPERT REPLY REPORT OF R. BICKLEY (BICK) WHITENER

May 31, 2019

CONFIDENTIAL—ATTORNEYS' EYES ONLY

using Blaze Advisor software in 15 functions across 10 “applications,” seven of which contribute to the quote, bind, book, issue policy process. At least four of these systems are Policy Administration Systems. New policy applications cannot convert to policies and renewal offers cannot convert to renewals without moving through this quote, bind, book, issue process. Blaze Advisor software, as deployed by Federal, executed, at one point, just over thirty-five thousand rules, depending on when defendant decided to disable CSI’s use of Blaze Advisor software for “underwriting guidance.”³⁴

20. The IBM Property and Casualty Business Activity Model, referenced by Mr. McCarter,³⁵ lists fifty-nine different business activities. Federal chose to deploy Blaze Advisor software in eight of these business activities on that list.³⁶ Not all eight of the business activities are of equal benefit. As I describe in Appendix 1 of my opening report, it is the underwriting process that carries the responsibility of protecting the company’s surplus by making sure the premium charged is commensurate with the expected cost of raw materials (claims dollars).³⁷ It is the underwriting process that sells both consumer and agents/brokers on the insurance company and its products. It is also the underwriting process that ensures the applications sold by the agents or brokers are acceptable within the company’s business rules. The underwriting process is critical to the selling of insurance and, therefore, critical to revenue growth.

21. This underwriting process is the core to the revenue generation of Property & Casualty insurance and its importance is not equal to other activities. Additionally, the eight

³⁴ FED017914.

³⁵ McCarter Rep. at 14-15, paragraphs 54 & 55.

³⁶ McCarter Rep. at 15-19, paragraphs 54, 61-63, 65-67 (1) Rate Development/Maintenance, 2) Prospect Quoting, 3) Underwriting Rules & Maintenance, 4) Assessment & Analysis, 5) Issuance, 6) Endorsement Processing, 7) Scheduled Activities, and 8) Regulatory Compliance).

³⁷ Whitener Rep. at 45, paragraph 130.

activities deploying Blaze Advisor that Mr. McCarter highlights are almost all highly correlated to execution of the underwriting process and at least four, rate development/maintenance, prospect quoting, underwriting rules/maintenance, and issuance, are fundamental to the quote, bind, book, issue steps of the underwriting process by which written premium is acquired. Removal of any of the functions and quotes may not be converted to realized revenue. They all contribute to revenue.

22. Mr. McCarter's implicit suggestion that each of the fifty-nine (59) business activities is equally important and equally weighted is wrong. Treating each application with equal importance is no more than measuring the size that any one technology occupies within the defendant's overall technology footprint. The issue is not how big Blaze Advisor's contribution to Chubb's technology footprint is. The issue is the value of Blaze Advisor in executing decisions in the functions that drive revenue.

23. Blaze Advisor software was critical to Federal's generation of revenue. (Consider the amount of premium touched by the Blaze Advisor-utilizing applications³⁸). Federal expended significant time, energy, and resources developing Blaze Advisor software competencies that could be shared across Chubb strategic business units. For example, Chubb created its Center of Excellence (CoE) to develop and share knowledge related to business rules, including use of Blaze Advisor software.³⁹ Chubb also focused on developing Blaze Advisor software competencies through its involvement and creation of the "Northeast Decision Management User Group."⁴⁰ The Northeast Decision Management User Group was designed to bring Blaze Advisor software users together, with participation by FICO, to share tips and techniques of

³⁸ See Zoltowski Report.

³⁹ FED00065_0003; FICO00270_0004.

⁴⁰ FED013488_0001.

Blaze Advisor usage. Chubb acted as host at the initial meeting of this user group.⁴¹ Finally, Chubb focused on developing Blaze Advisor software competencies through its continued engagements with FICO over the life of the license. According to Federal's damages expert, Federal paid FICO \$6,619,560 for professional services over the life of the license. Federal realized the Blaze Advisor software contributed to revenue and expended resources to extend Blaze Advisor's use and contribution to revenue.

24. Automated decision-making affects three areas of an insurance company's financials. These are Written Premium, Loss Ratio, and Expense Management. Blaze Advisor's use in Written Premium and Loss Ratio benefit Federal's quote, bind, book, and issue processes. Blaze Advisor, the automated decision-making system Federal chose, influences the quote, book, bind, issue processes as follows:

- Precision. Blaze Advisor® identifies the correct price to quote new policies and renewal.⁴² Failure to be precise in the quote, bind, book, and issue process means the customer may go elsewhere (price too high) or Federal may lose money (inadequate premium for risk). Federal used Blaze Advisor for Profitability Indicator (PI) for predictive modeling to provide input on the precise premium needed to achieve adequacy.⁴³ PI is used by the CSI (Chubb Specialty Insurance) market segment for both renewal and new business underwriting for certain products.⁴⁴
- Consistency. An automated decision-making system will execute the rules defined within the system each and every time. The same cannot be said for a group of

⁴¹ *Id.*

⁴² FED000275_0014 ("real-time quote" and "bindable quote letter" means that Decision Point has decided the rate and made the offer to write the policy).

⁴³ Deposition of Henry Mirolyuz, January 11, 2019, 50:6-14.

⁴⁴ FED005942_0004.

humans (the larger the size of the group, the lower the probability of achieving desired consistency). In today's technology world, computers do what humans instruct them to do. Mistakes in building rules can happen but the multiple testing steps inside a SDLC should, if these steps are well executed, mitigate that risk.

Consistent application of business rules influences loss ratio and influences written premium through its influence on quote conversion and renewal offer conversion.

- Agility. An automated decision-making system, Blaze Advisor software, allows modification of rules much more rapidly than rules embedded in programming code. Implementing new drafted business rules more quickly (i.e. speed to market of new product or modification of existing product rules) allows Chubb to realize revenue and profits faster. If a regulatory entity's actions require modification to rules, the company benefits in both expenses and compliance by using the system. Federal speaks to this in its analysis of the ARP I project where the time to implement rules changes reduced from three to six months to two to three days.⁴⁵ Changing the rules faster allowed Chubb to realize the revenue from updated business rules more quickly (i.e. properly price the risk).
- Speed. All insurance companies have a desired turnaround on new applications. Insurance companies will fail to meet their goals if applications sit untouched on underwriters' workstations due to being overwhelmed by work. Federal used Blaze Advisor software to manage underwriting transactions, the underwriting backlog, and find the most readily available underwriter who has the requisite knowledge, skill,

⁴⁵ FED000243_0004.

and experience.⁴⁶ Acceleration of this underwriting process is valuable and influences written premium; it can influence both loss ratio and expense ratio.

- Time and Cost. Federal acknowledges in FED000243 that Automated Renewals I, using Blaze Advisor software, reduced the cost of changing renewal rules from three to six months to two to three days of incurred work.⁴⁷ Here, in addition to the revenue benefit of speed to market (avoiding lost opportunity from delay) IT man-hours cost-savings are also enjoyed. cost would include IT man hours to change the rules and lost opportunity from delay. And of course, there is the additional benefit of freeing up the CSRs/Underwriting associates time to be used for marketing and selling.⁴⁸

III. ALTERNATIVES TO BLAZE ADVISOR ARE IMPRACTICABLE AND DO NOT ACHIEVE FEDERAL'S BUSINESS NEEDS

25. Mr. McCarter outlines alternatives⁴⁹ he believes Federal could have implemented instead of continuing to use Blaze Advisor software. Each of these alternatives is impractical and leaves Federal susceptible to performance gaps.

- Manual look-up. While manual look-up may be used in some aspects of today's insurance industry,⁵⁰ this is not a viable alternative to Federal's use of Blaze Advisor. Take for instance Federal's use of CSI eXPRESS. Federal reports that CSI eXPRESS uses [REDACTED]⁵¹ Federal does not have the human capital to be able to use manual look-up to accomplish what Blaze Advisor software does in CSI eXPRESS, let alone all of the other Blaze Advisor

⁴⁶ FED016599_0001.

⁴⁷ *Id.*

⁴⁸ FICO0057280 at FICO0057284.

⁴⁹ McCarter Rep. at 21, paragraph 76.

⁵⁰ McCarter Rep. at 21, paragraph 77.

⁵¹ FED017914.